

NICHOLLS STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA



ACCOUNTANT'S REVIEW REPORT

ISSUED OCTOBER 25, 2005

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
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STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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October 13, 2005

Accountant's Review Report

NICHOLLS STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Thibodaux, Louisiana

We have reviewed the accompanying basic financial statements as listed in the table of contents of Nicholls State University, a university within the University of Louisiana System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2005, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of management of Nicholls State University.

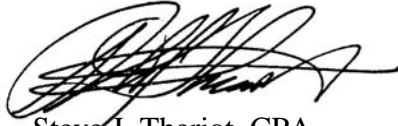
A review consists principally of inquiries of Nicholls State University personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the objective of which is the expression of an opinion regarding the financial statements. Accordingly, we do not express such an opinion.

As discussed in note 1-B to the basic financial statements, the accompanying financial statements of Nicholls State University are intended to present the financial position and the changes in financial position and cash flows, where applicable, of only that portion of the business-type activities of the University of Louisiana System that is attributable to the transactions of Nicholls State University. They do not purport to, and do not, present fairly the financial position of the University of Louisiana System or the State of Louisiana as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Based on our review, we are not aware of any material modifications that should be made to the accompanying basic financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 5 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Such information has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements but was compiled from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on this supplementary information.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Steve J. Theriot', with a stylized flourish extending to the right.

Steve J. Theriot, CPA
Legislative Auditor

RG:JR:PEP:ss

[NSU05]

Management's Discussion and Analysis of Nicholls State University's financial performance presents a narrative overview and analysis of Nicholls State University's financial activities for the year ended June 30, 2005. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this document in conjunction with Nicholls State University's financial statements, which begin on page 13.

Nicholls State University's net assets overall changed from \$54,094,278 to \$55,166,269 or 1.98% from June 30, 2004, to June 30, 2005. The overall reasons for this change included approximately \$780,192 of net income in addition to \$291,799 in capital and endowment additions.

Enrollment changed from 7,262 to 7,482 from fall 2003 to fall 2004, a change of 3.03%. The reason for this change is attributed to an increase in recruiting higher-ability students and increased retention in preparation for admission standards to take effect in fall 2005.

Nicholls State University's operating revenues changed from \$33,949,590 to \$39,281,589 or 15.71% from June 30, 2004, to June 30, 2005. Operating expenses, however, changed by 10.28% to \$64,727,592 for the year ended June 30, 2005. The primary reasons for this change are:

- Faculty and staff salary increases
- Group insurance increases and rate adjustment
- Retirement contribution increases
- Increase of restricted grants and contracts
- General increases in operating the university

Nonoperating revenues (expenses) fluctuate depending upon levels of state operating and capital appropriations. The change to \$26,226,195 in 2005 from \$26,521,265 in 2004 is attributed to a small increase of state appropriations, a slight decrease of gifts, an increase in investment income, and a smaller increase in endowments held by the Nicholls State University Foundation from the previous year (Other Nonoperating Revenues).

OVERVIEW OF THE FINANCIAL STATEMENTS

These financial statements consist of two sections--Management's Discussion and Analysis (this section) and the basic financial statements (including the notes to the financial statements).

Basic Financial Statements

The basic financial statements present information for the university as a whole in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets (page 13) presents the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the financial position of the university is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets (pages 15-16) presents information showing how the university's assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, transactions are included that will not affect cash until future fiscal periods.

The Statement of Cash Flows (pages 17-18) presents information showing how the university's cash changed as a result of current year operations. The Statement of Cash Flows is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities (indirect method) as required by GASB 34.

The financial statements provide both long-term and short-term information about Nicholls State University's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Nicholls State University's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of capital assets is recognized in the Statement of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the university are included in the Statement of Net Assets.

FINANCIAL ANALYSIS

**Statement of Net Assets
as of June 30, 2005**

	Total	
	2005	2004
Current and other assets	\$30,321,203	\$27,556,987
Capital assets, net	31,138,921	32,507,574
Total assets	<u>61,460,124</u>	<u>60,064,561</u>
Current and other liabilities	6,293,855	5,969,283
Total liabilities	<u>6,293,855</u>	<u>5,969,283</u>
Net assets:		
Invested in capital assets	31,138,921	32,507,574
Restricted	19,533,162	17,660,994
Unrestricted	4,494,186	3,925,710
Total net assets	<u><u>\$55,166,269</u></u>	<u><u>\$54,094,278</u></u>

This schedule is prepared from Nicholls State University's statement of net assets as shown on page 13, which is presented on an accrual basis of accounting whereby fixed assets are capitalized and depreciated. Significant statement of net assets changes from 2004 include:

- Current and other assets increased as a result of an increase in cash and cash equivalents and increased endowments
- Capital assets decreased primarily because of a limited amount of acquisitions compared to total depreciation
- Other liabilities increased primarily because of increases in accrued liabilities, deferred revenues, and an increase of compensated absences payable
- Restricted net assets increased primarily because of an increase in endowments as well as an increase in grants and contracts
- Unrestricted net assets increased primarily as a result of an increase of the net assets of auxiliary enterprises

Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation, and reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets. Restricted net assets represent those assets that are not available for spending as a result of legislative requirements, donor agreements, or grant requirements. Conversely, unrestricted net assets are those that do not have any limitations on how these amounts may be spent.

Statement of Revenues, Expenses, and Changes in Net Assets

	2005	2004
Operating Revenues:		
Student tuition and fees, net	\$19,734,879	\$15,187,050
Grants and contracts	12,747,214	12,355,392
Auxiliary, net	4,890,961	4,791,515
Other	1,908,535	1,615,633
Total operating revenues	39,281,589	33,949,590
Operating Expenses:		
Education and General:		
Instruction	24,145,967	23,811,846
Research	1,952,526	1,137,232
Public service	946,826	848,100
Academic support	5,781,971	5,671,873
Student services	6,165,936	3,773,397
Institutional support	6,056,233	5,900,822
Operations and maintenance of plant	7,101,859	5,719,784
Depreciation	2,450,866	2,461,743
Scholarships and fellowships	2,033,715	1,825,783
Other operating expenses	8,091,693	7,541,406
Total operating expenses	64,727,592	58,691,986
Operating income (loss)	(25,446,003)	(24,742,396)
Nonoperating Revenues (Expenses)		
State appropriation	24,542,567	24,220,000
Gifts	321,393	382,668
Other nonoperating revenues (expenses)	1,362,235	1,918,597
Net nonoperating revenues (expenses)	26,226,195	26,521,265
Income before other revenues, expenses, gains, losses	780,192	1,778,869
Capital appropriations	246,894	
Capital grants and gifts	6,822	1,459,000
Additions to permanent endowments	40,000	
Other additions (deductions), net	(1,917)	(90,031)
Change in Net Assets	1,071,991	3,147,838
Net assets at the beginning of the year	54,094,278	50,946,440
Net assets at the end of the year	\$55,166,269	\$54,094,278

Nonoperating revenues (expenses) decreased by (1.1)% to \$26,226,195, primarily attributable to a smaller increase in endowments held by the Nicholls State University Foundation from the previous year. State appropriations changed from \$24,220,000 to \$24,542,567 because of partial funding of mandated increases for group insurance and retirement contributions.

STATEMENT OF CASH FLOWS

Another way to assess the financial health of Nicholls State University is to look at the Statement of Cash Flows. The Statement of Cash Flows assists readers of this statement to assess:

- The ability to generate future cash flows
- The ability to meet obligations as they come due
- A need for external financing

Statement of Cash Flows

	2005	2004
Cash and cash equivalents provided (used) by:		
Operating activities	(\$22,504,176)	(\$21,497,062)
Noncapital financing activities	25,523,831	26,252,151
Capital financing activities	(580,414)	(897,652)
Investing activities	(229,585)	(2,308,951)
Net increase in cash and cash equivalents	2,209,656	1,548,486
Cash and cash equivalents:		
Beginning of year	19,443,738	17,895,252
End of year	<u>\$21,653,394</u>	<u>\$19,443,738</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2005, Nicholls State University had invested \$31,138,921 in capital assets, net of accumulated depreciation. This amount represents a net decrease (including additions and disposals, net of depreciation) of \$1,368,653 or (4.2)% over the previous fiscal year. More detailed information about the university's capital assets is presented in note 5 to the financial statements.

**Capital Assets at Year-End
(Net of Depreciation)**

	2005	2004
Land	\$3,480,469	\$3,672,248
Land improvements	1,262,195	1,376,206
Buildings	23,719,047	24,733,707
Equipment	1,889,332	1,995,669
Library materials	787,878	729,744
End of year	<u>\$31,138,921</u>	<u>\$32,507,574</u>

This year's major additions/deletions included:

- The Chackbay farm consisting of land and one depreciable building (valued at \$191,779) was sold.
- There were a limited number of acquisitions in 2004-2005 (\$1,281,206) compared to depreciation of \$2,450,866.

Debt

Nicholls State University had no bonds or notes outstanding at year-end either year; however, it is anticipated that future capital improvements will be made either through a bond issue or a capital lease.

See notes 6 and 8 to the financial statements for details relating to changes in and the composition of long-term liabilities and capital leases.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The following currently known facts, decisions, or conditions are expected to have a significant effect on financial position or results of operations:

- A 3% tuition and fee increase
- A 6.67% increase in state appropriations
- A privatized housing project completed at the beginning of spring 2004 is expected to generate additional revenue for the university
- Admission standards taking effect in fall 2005 (anticipate a drop in enrollment)

CONTACTING NICHOLLS STATE UNIVERSITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of Nicholls State University's finances and to show the university's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ms. Linda Peltier at (985) 448-4062 or the university controller at (985) 448-4060.

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**NICHOLLS STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA****Statement of Net Assets, June 30, 2005****ASSETS**

Current assets:

Cash and cash equivalents (note 2)	\$14,025,324
Receivables, net (note 4)	1,797,807
Due from State Treasury	135,018
Inventories	128,985
Deferred charges and prepaid expenses	70,199
Total current assets	<u>16,157,333</u>

Noncurrent assets:

Restricted assets:

Cash and cash equivalents (note 2)	7,628,070
Investments (note 3)	6,450,536
Receivables, net (note 4)	62,186
Notes receivable, net	23,078
Capital assets, net (note 5)	<u>31,138,921</u>
Total noncurrent assets	<u>45,302,791</u>
Total assets	<u>61,460,124</u>

LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities (note 12)	2,172,401
Deferred revenues	1,257,626
Compensated absences payable (note 6)	233,473
Amounts held in custody for others	183,314
Total current liabilities	<u>3,846,814</u>

Noncurrent liabilities:

Compensated absences payable (note 6)	<u>2,447,041</u>
Total noncurrent liabilities	<u>2,447,041</u>
Total liabilities	<u>6,293,855</u>

NET ASSETS

Invested in capital assets (note 5)	31,138,921
Restricted:	
Nonexpendable (note 9)	11,474,047
Expendable (note 9)	8,059,115
Unrestricted	<u>4,494,186</u>
TOTAL NET ASSETS	<u>\$55,166,269</u>

See accompanying notes and accountant's review report.

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**NICHOLLS STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

**Statement of Revenues, Expenses,
and Changes in Net Assets
For the Year Ended June 30, 2005**

OPERATING REVENUES

Student tuition and fees	\$24,629,035
Less scholarship allowances	(4,894,156)
Net student tuition and fees	<u>19,734,879</u>
Federal grants and contracts	9,712,717
State and local grants and contracts	2,015,241
Nongovernmental grants and contracts	1,019,256
Sales and services of education departments	663,968
Auxiliary enterprise revenues	5,163,870
Less scholarship allowances	(272,909)
Net auxiliary revenues	<u>4,890,961</u>
Other operating revenues	<u>1,244,567</u>
Total operating revenues	<u><u>39,281,589</u></u>

OPERATING EXPENSES

Education and general:	
Instruction	24,145,967
Research	1,952,526
Public service	946,826
Academic support	5,781,971
Student services	6,165,936
Institutional support	6,056,233
Operations and maintenance of plant	7,101,859
Depreciation (note 5)	2,450,866
Scholarships and fellowships	2,033,715
Auxiliary enterprises	7,888,590
Other operating expenses	<u>203,103</u>
Total operating expenses	<u><u>64,727,592</u></u>

Operating Loss	<u><u>(25,446,003)</u></u>
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(Continued)

See accompanying notes and accountant's review report.

**NICHOLLS STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statement of Revenues, Expenses,
and Changes in Net Assets
For the Year Ended June 30, 2005**

NONOPERATING REVENUES (EXPENSES)

State appropriations	\$24,542,567
Gifts	321,393
Net investment income	492,364
Payments to or on behalf of the university (note 7)	18,882
Other nonoperating revenues (expenses)	850,989
Net nonoperating revenues	<u>26,226,195</u>

**Income Before Other Revenues,
Expenses, Gains and Losses**

780,192

Capital appropriations	246,894
Capital gifts and grants	6,822
Additions to permanent endowments	40,000
Other additions (deductions), net	<u>(1,917)</u>

Increase in Net Assets

1,071,991

Net Assets at Beginning of Year

54,094,278

Net Assets at End of Year

\$55,166,269

(Concluded)

See accompanying notes and accountant's review report.

**NICHOLLS STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA**

**Statement of Cash Flows
For the Year Ended June 30, 2005**

Cash Flows From Operating Activities:

Tuition and fees	\$19,949,320
Grants and contracts	12,674,275
Sales and services of educational departments	640,904
Auxiliary enterprise receipts	5,038,233
Payments for employee compensation	(32,621,217)
Payments for benefits	(9,049,357)
Payments for utilities	(2,261,290)
Payments for supplies and services	(12,541,799)
Payments for scholarships and fellowships	(5,645,307)
Loans to students	(4,000)
Collection of loans to students	4,092
Other receipts	1,311,970
Net cash used by operating activities	<u>(22,504,176)</u>

Cash Flows From Noncapital Financing Activities:

State appropriations	24,542,567
Gifts and grants for other than capital purposes	71,393
Private gifts for endowment purposes	40,000
TOPS receipts	4,193,652
TOPS disbursements	(4,193,652)
Federal Family Education Loan Program receipts	16,465,209
Federal Family Education Loan Program disbursements	(16,465,209)
Other receipts	869,871
Net cash provided by noncapital financing sources	<u>25,523,831</u>

Cash Flows From Capital Financing Activities:

Capital appropriations received	246,894
Capital grants and gifts received	6,822
Proceeds from sale of capital assets	250,000
Purchases of capital assets	(1,084,130)
Net cash used by capital financing activities	<u>(580,414)</u>

Cash Flows From Investing Activities:

Interest received on investments	492,191
Purchase of investments	(721,776)
Net cash used by investing activities	<u>(229,585)</u>

Net increase in cash and cash equivalents 2,209,656

Cash and cash equivalents at the beginning of the year 19,443,738

Cash and cash equivalents at the end of the year \$21,653,394

(Continued)

See accompanying notes and accountant's review report.

**NICHOLLS STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Statement of Cash Flows
For the Year Ended June 30, 2005**

Reconciliation of Operating Loss to

Net Cash Used by Operating Activities:

Operating loss	(\$25,446,003)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	2,450,866
Changes in assets and liabilities:	
Decrease in receivables, net	72,249
Decrease in inventories	9,384
Decrease in deferred charges and prepaid expenses	84,583
Increase in accounts payable and accrued liabilities	50,559
Increase in deferred revenue	145,353
Increase in amounts held in custody for others	43,705
Increase in compensated absences	84,955
Increase in other liabilities	<u>173</u>
Net cash used by operating activities	<u><u>(\$22,504,176)</u></u>

**Reconciliation of Cash and Cash Equivalents to the
Statement of Net Assets**

Cash and cash equivalents classified as current assets	\$14,025,324
Cash and cash equivalents classified as noncurrent assets	<u>7,628,070</u>

Cash and cash equivalent at end of year	<u><u>\$21,653,394</u></u>
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**Noncash Investing, Noncapital Financing,
and Capital and Related Financing Transactions**

Capital assets appropriated to the university	\$246,894
Capital assets donated to the university	\$6,822

(Concluded)

See accompanying notes and accountant's review report.

INTRODUCTION

Nicholls State University is a publicly supported institution of higher education. The university is part of the University of Louisiana System, which is a component unit of the State of Louisiana, within the executive branch of government. The university is under the management and supervision of the Board of Supervisors of the University of Louisiana System; however, certain items like the annual budget of the university and changes to the degree programs and departments of instruction require the approval of the Board of Regents for Higher Education. As a state university, operations of Nicholls State University's instructional programs are funded through annual lapsing appropriations made by the Louisiana Legislature. The chief executive officer of the university is the president.

Nicholls State University is located in Thibodaux, Louisiana. Student enrollment was 2,469, 7,482, and 6,922, during the summer, fall, and spring semesters of the fiscal year ended June 30, 2005, and the university employs approximately 285 full-time faculty members.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING

The Governmental Accounting Standards Board (GASB) promulgates accounting principles generally accepted in the United States of America and reporting standards for state and local governments. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by GASB. The accompanying financial statements have been prepared in accordance with such principles.

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. Nicholls State University is a part of the University of Louisiana System, which is considered a component unit of the State of Louisiana because the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) a majority of the members of the governing board are appointed by the governor; (2) the state has control and exercises authority over budget matters; (3) state appropriations provide the largest percentage of total revenues; (4) the state issues bonds to finance certain construction; and (5) the university system primarily serves state residents. The accompanying financial statements present information only as to the transactions of the programs of Nicholls State University as authorized by Louisiana statutes and administrative regulations.

Annually, the State of Louisiana issues a comprehensive financial report which includes the activity contained in the accompanying financial statements within the University of Louisiana System amounts. The Louisiana Legislative Auditor audits the basic financial statements of the University of Louisiana System and the state.

C. BASIS OF ACCOUNTING

For financial reporting purposes, the university is considered a special-purpose government engaged only in business-type activities (enterprise fund). Accordingly, the university's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-university transactions have been eliminated.

The university has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The university has elected not to apply FASB pronouncements issued after the applicable date.

D. BUDGET PRACTICES

The appropriation made for the General Fund of the university is an annual lapsing appropriation established by legislative action and by Title 39 of the Louisiana Revised Statutes. The statute requires that the budget be approved by the Board of Regents for Higher Education and certain legislative and executive agencies of state government. Budget revisions are granted by the Joint Legislative Committee on the Budget. In compliance with these legal restrictions, budgets are adopted on the accrual basis of accounting, except that (1) depreciation is not recognized; (2) leave costs are treated as budgeted expenditures to the extent that they are expected to be paid; (3) summer school tuition and fees and summer school faculty salaries and related benefits for June are not prorated, but are recognized in the succeeding year; and (4) inventories are recorded as expenditures at the time of purchase.

The original approved budget for fiscal year 2005 and subsequent amendments approved are as follows:

Original approved budget	\$46,135,522
Increases (Decreases):	
State General Fund (Direct)	(411,711)
Self-generated	627,838
Other	3,211
	<hr/>
Final Budget	<u><u>\$46,354,860</u></u>

The other funds of the university, although subject to internal budgeting, are not required to submit budgets for approval through the legislative budget process.

**E. CASH AND CASH EQUIVALENTS
AND INVESTMENTS**

Cash includes cash on hand, demand deposits, and interest-bearing demand deposits. Cash equivalents include amounts in certificates of deposit and money market funds. Under state law, the university may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. The university may invest in certificates of deposit of state banks organized under Louisiana law and national banks having their principal offices in Louisiana.

In accordance with Louisiana Revised Statute (R.S.) 49:327, Nicholls State University is authorized to invest funds in direct U.S. Treasury obligations, U.S. government agency obligations, direct security repurchase agreements, reverse direct repurchase agreements, investment grade commercial paper, investment grade corporate notes and bonds, and money market funds. Funds derived from gifts and grants, endowments, and reserve funds established in accordance with bond issues may be invested as stipulated by the conditions of the gift instrument or bond indenture. The majority of these investments are U.S. Treasury securities, mutual funds and are reported at fair value on the balance sheet. Changes in the carrying value of investments, resulting in unrealized gains or losses, are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets. Investments maintained in investment accounts in the external foundation are invested as authorized by policies and procedures established by the Board of Regents and reported at fair value.

F. INVENTORIES

Inventories are valued at the lower of cost or market. The university uses a periodic inventory system and values its inventory using the first-in, first-out method. The university accounts for its inventory using the consumption method.

G. RESTRICTED ASSETS

Cash, investments, notes receivable, and other assets that are externally restricted for grants, endowments, debt service payments, maintenance of sinking or reserve funds or to purchase or construct capital assets are classified as noncurrent restricted assets in the Statement of Net Assets. Noncurrent restricted investments consist of endowments and similar type accounts for which donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity.

H. CAPITAL ASSETS

Capital assets are reported at cost at the date of acquisition or their estimated fair value at the date of donation. For movable property, the university's capitalization policy includes all items with a unit cost of \$5,000 or more and estimated useful life greater than

one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of the assets, generally 40 years for buildings and infrastructure, 20 years for depreciable land improvements, and 3 to 10 years for most movable property. Library collections regardless of age, with a total acquisition value of \$5,000,000 or more will be capitalized and depreciated.

I. DEFERRED REVENUES

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year, but are related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

J. NONCURRENT LIABILITIES

Noncurrent liabilities may include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

K. COMPENSATED ABSENCES

Employees accrue and accumulate annual and sick leave in accordance with state law and administrative regulations. The leave is accumulated without limitation; however, nine-month faculty members do not accrue annual leave but are granted faculty leave during holiday periods when students are not in classes. Employees who are considered having non-exempt status according to the guidelines contained in the Fair Labor Standards Act may be paid for compensatory leave earned.

Upon separation or termination of employment, both classified and non-classified personnel or their heirs are compensated for accumulated annual leave not to exceed 300 hours. In addition, academic personnel or their heirs are compensated for accumulated sick leave not to exceed 25 days upon retirement or death. Act 343 of 1993 allows members of the Louisiana State Employees' Retirement System, upon application for retirement, the option of receiving an actuarially determined lump sum payment for annual and sick leave which would otherwise have been used to compute years of service upon retirement. Upon retirement, any sick or annual leave not compensated for is used as credited service in either the Louisiana Teachers' Retirement System or the Louisiana State Employees' Retirement System.

Upon termination or transfer, an employee will be paid for any one and one-half hour compensatory leave earned and may not be paid for any straight hour-for-hour

compensatory leave earned. Compensation paid will be based on the employee's hourly rate of pay at termination or transfer. The liability for unused annual leave, sick leave, and compensatory leave at June 30, 2005, computed in accordance with Codification of Governmental Accounting and Financial Reporting Standards Section C 60, is estimated to be \$1,427,071; \$1,167,996; and \$85,447, respectively.

L. NET ASSETS

The university's net assets are classified as follows:

Invested in Capital Assets

This represents the university's total investment in capital assets, net of accumulated depreciation, and net of related debt, if applicable.

Restricted Net Assets - Nonexpendable

Restricted nonexpendable net assets consist of endowment and similar type funds which donors or other sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted Net Assets - Expendable

Restricted expendable net assets include resources that the institution is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted Net Assets

Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the university and may be used at the discretion of the governing board to meet current expenses and for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the university's policy is to first apply the expense toward unrestricted resources and then toward restricted resources.

M. CLASSIFICATION OF REVENUES

The university has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenue includes activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances; and (3) most federal, state, and local grants and contracts.

Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as gifts and contributions, state appropriations, and investment income.

N. SCHOLARSHIP DISCOUNTS AND ALLOWANCES

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the university and the amount that is paid by students and/or third parties making payments on the student's behalf.

O. ELIMINATING INTERFUND ACTIVITY

Activities among departments and auxiliary service units are eliminated for purposes of preparing the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets.

**P. POSTEMPLOYMENT HEALTH CARE
AND LIFE INSURANCE BENEFITS**

The university provides certain continuing health care and life insurance benefits for its retired employees. The university recognizes the cost of providing these retiree benefits as an expense when paid during the year.

2. CASH AND CASH EQUIVALENTS

At June 30, 2005, the university has cash and cash equivalents (book balances) of \$21,653,394 as follows:

NOTES TO THE FINANCIAL STATEMENTS

Petty cash	\$11,799
Demand deposits	7,495,931
Money Market accounts	1,399,562
Certificate of deposits	<u>12,746,102</u>
Total	<u><u>\$21,653,394</u></u>

Custodial credit risk is the risk that in the event of a bank failure, the university's deposits may not be recovered. Under state law, the university's deposits must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the university and/or the pledging bank by a holding or custodial bank that is mutually acceptable to both parties. The university has collateral security agreements with all of its banks to secure its claims to the collateral in the event of bank default.

As of June 30, 2005, the university's total bank balance of \$23,173,884 was insured and collateralized and therefore not exposed to custodial credit risk.

3. INVESTMENTS

At June 30, 2005, the university has investments totaling \$6,450,536.

The university's established investment policy follows the state law, which authorizes the system to invest funds in direct U.S. Treasury obligations, U.S. government agency obligations, direct security repurchase agreements, reverse direct repurchase agreements, investment grade commercial paper, investment grade corporate notes and bonds, and money market funds.

A summary of the university's investments follows:

Type of Investment:	Percentage of Investments	Fair Value	Investment Maturities in Years		
			1-5	6-10	11-20
U.S. government securities	33.4%	\$2,151,898	\$1,129,702	\$1,000,150	\$22,046
Other*	<u>66.6%</u>	<u>4,298,638</u>			
Total investments	<u><u>100%</u></u>	<u><u>\$6,450,536</u></u>			

*Endowments held by the Nicholls State University Foundation--the amount of matching funds received by the university from the state pursuant to the endowed chair and professorship program and the related unexpended earnings from private foundations is \$1,598,394 at June 30, 2005, which is included in the \$4,298,638 above. These funds are held and invested by the university's foundation under an agreement with the university and are not categorized as to risk

or credit quality. Disclosures related to those investments are reported separately in the independent audit report on the foundation.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits the university's investments as described previously. The university has investment policies to further limit credit risk.

For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the university will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the university's investments, none of the underlying securities are held by counterparties and not in the name of the university. For U.S. Treasury obligations and U.S. government agency obligations, the university's investment policies generally require that issuers must provide the university with safekeeping receipts, collateral agreements, and custodial agreements.

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. State law as applicable to institutions of higher education does not address interest rate risk. The university has no investments other than U.S. government securities in any one issuer that represents 5% or more of total investments. It has no exposure to foreign currency risk.

4. RECEIVABLES

Receivables, all of which are scheduled for collection within one year, are shown on the Statement of Net Assets, net of an allowance for doubtful accounts as follows:

<u>Types</u>	<u>Receivables</u>	<u>Doubtful Accounts</u>	<u>Net Receivables</u>
Student tuition and fees	\$850,923	\$320,785	\$530,138
Auxiliary enterprises	133,547		133,547
Federal, state, and private grants and contracts	1,077,994		1,077,994
Other	118,314		118,314
Total	<u>\$2,180,778</u>	<u>\$320,785</u>	<u>\$1,859,993</u>

5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance June 30, 2004	Additions	Retirements	Balance June 30, 2005
Capital assets, not being depreciated - land	\$3,672,248	NONE	(\$191,779)	\$3,480,469
Other capital assets:				
Land improvements	\$2,280,210			\$2,280,210
Less accumulated depreciation	(904,004)	(\$114,011)		(1,018,015)
Total land improvements	1,376,206	(114,011)	NONE	1,262,195
Buildings	54,728,911	246,893	(\$107,525)	54,868,279
Less accumulated depreciation	(29,995,204)	(1,261,553)	107,525	(31,149,232)
Total buildings	24,733,707	(1,014,660)	NONE	23,719,047
Equipment	7,230,773	538,779	(296,960)	7,472,592
Less accumulated depreciation	(5,235,104)	(641,283)	293,127	(5,583,260)
Total equipment	1,995,669	(102,504)	(3,833)	1,889,332
Library books	10,081,608	495,534	(5,298)	10,571,844
Less accumulated depreciation	(9,351,864)	(432,102)		(9,783,966)
Total library books	729,744	63,432	(5,298)	787,878
Total other capital assets	\$28,835,326	(\$1,167,743)	(\$9,131)	\$27,658,452
Capital Asset Summary:				
Capital assets not being depreciated	\$3,672,248		(\$191,779)	\$3,480,469
Other capital assets, at cost	74,321,502	\$1,281,206	(409,783)	75,192,925
Total cost of capital assets	77,993,750	1,281,206	(601,562)	78,673,394
Less accumulated depreciation	(45,486,176)	(2,448,949)	400,652	(47,534,473)
Capital assets, net	\$32,507,574	(\$1,167,743)	(\$200,910)	\$31,138,921

6. CHANGES IN LONG-TERM LIABILITIES (CURRENT AND NONCURRENT PORTION)

The following is a summary of long-term liability transactions of the university for the year ended June 30, 2005.

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Amounts Due Within One Year
Compensated absences payable	\$2,595,559	\$331,516	\$246,561	\$2,680,514	\$233,473
Total long-term liabilities	\$2,595,559	\$331,516	\$246,561	\$2,680,514	\$233,473

7. ON-BEHALF PAYMENTS

On-behalf payments for fringe benefits and salaries are direct payments made by one entity to a third-party recipient for the employees of another legally separate entity. On-behalf payments include pension plan contributions, employee health and life insurance premiums, and salary supplements or stipends. The amount of on-behalf payments for fringe benefits and salaries included in the accompanying financial statement for fiscal year 2005 is \$18,882. There were no on-behalf payments made as contributions to a pension plan for which the university is not legally responsible.

8. LEASES

Operating Leases

Total operating lease expenses for fiscal year 2004-2005 amounted to \$8,272. (Operating leases are all leases that do not meet the criteria of a capital lease.) The annual rental payments for equipment leases expire in fiscal year 2006.

<u>Nature of lease</u>	<u>FY 2006</u>
Equipment	<u>\$8,272</u>

Lease agreements have non-appropriation exculpatory clauses that allow lease cancellation if the legislature does not make an appropriation for its continuation during any future fiscal period.

Rental expense for operating leases with scheduled rent increases is based on the relevant lease agreement except in those cases where a temporary rent reduction is used as an inducement to enter a lease. In those instances, rental revenue/expense is determined on either a straight-line or interest basis over the term of the lease and not in accordance with lease terms as required by GASB 13.

Capital Leases

The university has no capital leases at June 30, 2005.

Lessor-Operating Lease

The university's leasing operations consist primarily of leasing office space.

NOTES TO THE FINANCIAL STATEMENTS

Listed below are the cost and carrying amount of property on lease and the amount of accumulated depreciation as of June 30, 2005.

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Carrying Amount</u>
Office space	<u>\$1,357,214</u>	<u>\$1,045,257</u>	<u>\$311,957</u>

The following is a schedule by years of minimum future rentals on noncancellable operating leases as of June 30, 2005:

<u>Nature of Lease</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011 - FY 2015</u>	<u>FY 2016 - FY 2020</u>
Office space	<u>\$507,960</u>	<u>\$321,780</u>	<u>\$300,000</u>	<u>\$300,000</u>	<u>\$300,000</u>	<u>\$875,000</u>	<u>NONE</u>

Contingent rentals received from operating leases for fiscal year 2005 were \$123,174 for office space.

9. NET ASSETS

The university had the following restricted nonexpendable net assets as of June 30, 2005:

Endowments (held by the university)	\$7,175,409
Endowments (held by the foundation)	<u>4,298,638</u>
Total nonexpendable restricted net assets	<u>\$11,474,047</u>

The university had the following restricted expendable net assets as of June 30, 2005:

Contracts and grants	\$1,743,435
Student fees	3,469,088
Student loans	170,443
Endowment earnings for scholarships and fellowships	370,532
University plant projects	<u>2,305,617</u>
Total expendable restricted net assets	<u>\$8,059,115</u>

10. PENSION PLANS

Plan Description. Substantially all employees of the university are members of two statewide, public employee retirement systems. Academic and unclassified employees are generally members of the Teachers' Retirement System of Louisiana (TRSLA), and classified state employees are members of the Louisiana State Employees' Retirement System (LASERS). Both

plans are administered by separate boards of trustees. TRSLA is a cost-sharing, multiple-employer defined benefit pension plan, and LASERS is considered a single employer defined benefit plan because the material portion of its activity is with one employer--the State of Louisiana. TRSLA and LASERS provide retirement, disability, and survivors' benefits to plan members and beneficiaries. Benefits granted by the retirement systems are guaranteed by the State of Louisiana by provisions of the Louisiana Constitution of 1974. Generally, all full-time employees are eligible to participate in the systems, with employee benefits vesting after 5 years of service for TRSLA and 10 years of service for LASERS. Article 10, Section 29 of the Louisiana Constitution of 1974 assigns the authority to establish and amend benefit provisions to the state legislature. The systems issue annual publicly available financial reports that include financial statements and required supplementary information for the systems. The reports may be obtained by writing to the Teachers' Retirement System of Louisiana, Post Office Box 94123, Baton Rouge, Louisiana 70804-9123, or by calling (225) 925-6446, and/or the Louisiana State Employees' Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804-4213, or by calling (225) 922-0600.

Funding Policy. The contribution requirements of employee plan members and the university are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. Employees contribute 8.0% (TRSLA) and 7.5% (LASERS) of covered salaries. The state contributed 15.5% of covered salaries to TRSLA and 17.8% of covered salaries to LASERS for fiscal year 2005. The employer contribution is funded by the State of Louisiana through the annual appropriation to the university. The university's employer contributions to TRSLA for the years ended June 30, 2005, 2004, and 2003, were \$1,904,077; \$1,692,185; and \$1,534,466, respectively, and to LASERS for the years ended June 30, 2005, 2004, and 2003, were \$1,228,248; \$1,030,597; and \$879,516, respectively, equal to the required contributions for each year.

Optional Retirement System

R.S. 11:921 created an optional retirement plan for academic and administrative employees of public institutions of higher education. This program was designed to aid universities in recruiting employees who may not be expected to remain in TRSLA for 10 or more years. The purpose of the optional retirement plan is to provide retirement and death benefits to the participants while affording the maximum portability of these benefits to the participants.

The optional retirement plan is a defined contribution plan that provides for full and immediate vesting of all contributions remitted to the participating companies on behalf of the participants. Eligible employees make an irrevocable election to participate in the optional retirement plan rather than the TRSLA and purchase retirement and death benefits through contracts provided by designated companies.

Total contributions by the university are 15.5% of the covered payroll. The participant's contribution (8.0%), less any monthly fee required to cover the cost of administration and maintenance of the optional retirement plan, is remitted to the designated company or companies. Upon receipt of the employer's contribution, the TRSLA pays over to the

appropriate company or companies, on behalf of the participant, an amount equal to the employer's portion of the normal cost contribution as determined annually by the actuarial committee. The TRSLA retains the balance of the employer contribution for application to the unfunded accrued liability of the system. Benefits payable to participants are not the obligations of the State of Louisiana or the TRSLA. Such benefits and other rights of the optional retirement plan are the liability and responsibility solely of the designated company or companies to whom contributions have been made. Employer and employee contributions to the optional retirement plan totaled \$1,354,687 and \$732,199, respectively, for the year ended June 30, 2005.

11. POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The university provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the university's employees become eligible for those benefits if they reach normal retirement age while working for the university. Those benefits for retirees and similar benefits for active employees are provided through a state-operated group insurance program and various insurance companies whose monthly premiums are paid jointly by the employee and by the university. The university's cost of providing retiree health care and life insurance benefits is recognized as an expense when the monthly premiums are paid. For the year ended June 30, 2005, the costs of retiree benefits for 333 retirees totaled \$1,775,347.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The university's accounts payable and accrued liabilities of \$2,172,401 as of June 30, 2005, are comprised as follows:

<u>Activity</u>	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Other Payables*</u>	<u>Total Payables</u>
Summer school/June payrolls		\$1,346,167	\$797,322	\$2,143,489
Normal operations	\$28,727		185	28,912
Total payables	<u>\$28,727</u>	<u>\$1,346,167</u>	<u>\$797,507</u>	<u>\$2,172,401</u>

*Note: Other payables for summer school/June payroll are payroll tax liabilities.

13. SUBSEQUENT EVENTS

During August and September 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area. Because of the severity of these two separate events and the resulting losses sustained, it is unknown exactly what economic impact recovery will have on state and local governmental operations in Louisiana. While Nicholls State University did not directly suffer any major effects of these two hurricanes, the University of Louisiana System lost

significant assets and operational functionality. However, as noted, the long-term effects of these events on Nicholls State University cannot be determined at this time.

14. CONTINGENT LIABILITIES AND RISK MANAGEMENT

Losses arising from judgments, claims, and similar contingencies are considered state liabilities and paid upon appropriation by the legislature and not the university. The university is involved in no lawsuits at June 30, 2005. This does not include any lawsuits filed with the university system or the Office of Risk Management, the agency responsible for the state's risk management program.

15. FOUNDATION

The accompanying financial statements do not include the accounts of the Nicholls State University Foundation, which did not meet the Office of Statewide Reporting and Accounting Policy's criteria for inclusion. The foundation is audited by independent certified public accountants.

16. DEFERRED COMPENSATION PLAN

Certain employees of the university participate in the Louisiana Public Employees Deferred Compensation Plan adopted under the provisions of the Internal Revenue Code Section 457. Complete disclosures relating to the Plan are included in the separately issued audit report for the Plan, available from the Louisiana Legislative Auditor, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397.

17. DONOR RESTRICTED ENDOWMENTS

If a donor has not provided specific instructions, state law permits the university to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

At June 30, 2005, net appreciation of \$370,532 is available to be spent of which \$370,532 is restricted to specific purposes.

The policies for authorizing and spending investment income include the following: (1) income from endowed chairs and professorships is spent in accordance with the Board of Regents policy for Eminent Scholars and Endowed Professorships Program; and (2) income from scholarship endowments is spent according to the restrictions imposed by donors.

Management Letter



STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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October 13, 2005

NICHOLLS STATE UNIVERSITY
UNIVERSITY OF LOUISIANA SYSTEM
STATE OF LOUISIANA
Thibodaux, Louisiana

We have reviewed the financial statements of Nicholls State University, as of and for the year ended June 30, 2005, and have issued our accountant's review report thereon dated October 13, 2005. Nicholls State University is a university within the University of Louisiana System, a component unit of the State of Louisiana. The university's accounts are an integral part of the University of Louisiana System's financial statements, upon which the Louisiana Legislative Auditor expresses an opinion. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the objective of which is the expression of an opinion regarding the basic financial statements. Accordingly, we did not express such an opinion in our accountant's review report referred to previously.

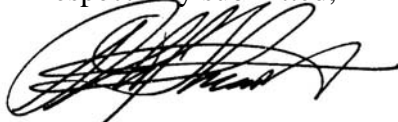
Our review of the financial statements did not disclose any transactions entered into by the university during the year that were both significant and unusual or transactions for which there is a lack of authoritative guidance.

For purposes of this letter, a disagreement with management is defined as a matter, whether or not resolved to our satisfaction, concerning a financial accounting or reporting matter that could be significant to the university's financial statements or the accountant's report. No such disagreements arose during our review procedures.

Because our review procedures were substantially less in scope than an audit in accordance with *Government Auditing Standards*, identifying matters affecting the university's internal control, compliance with applicable laws and regulations, and operational efficiencies was not an objective of our procedures. Accordingly, our review procedures cannot be relied upon to disclose errors, fraud, or illegal acts that may exist. However, during our review procedures, we noted no significant matters requiring recommendations to management concerning internal control, compliance, or operational efficiencies.

This management letter is intended solely for the information and use of Nicholls State University and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under state law, this letter is a public record.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Steve J. Theriot", written over a horizontal line.

Steve J. Theriot, CPA
Legislative Auditor

RDG:JR:PEP:ss

[NSU05]